



ALLIANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES FROM
MOLDOVA (AIM)

PLAN OF PARTICIPATION IN DECISION-MAKING PROCESS FOR THE YEAR 2024

JANUARY 1, 2024 – DECEMBER 31, 2024

Chisinau

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Alliance of Small and Medium-Sized Enterprises from Moldova

Chisinau, Republic of Moldova
202 Stefan cel Mare si Sfant blvd.,
5th floor, MD-2001
Phone: (373) 60 420 400
Email: liliana.busuioc@sme.md

Plan of Participation in Decision-Making Process for the Year 2024 is an annual document, prepared by the Alliance of Small and Medium-Sized Enterprises from Moldova, containing goals and objectives for 12 months of 2024.

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ACRONYMS

AIM	Alliance of Small and Medium Enterprises from Moldova
ANOFM	National Employment Agency
APP	Public Property Agency
B2B	Business to Business
B2G	Business to Government
BNM	National Bank of Moldova
CEPM	Economic Council under the Prime Minister's Office
CNPF	National Commission on Financial Markets
FISC	Tax Revenue Service
HG	Government Decision
IMM	Small and Medium Enterprises
ISM	State Labor Inspectorate
MA	Ministry of Agriculture and Food Industry
MAI	Ministry of the Interior
MDED	Ministry of Economic Development and Digitization
ME	Ministry of Education and Research
MEN	Ministry of Energy
MF	Ministry of Finance
MJ	Ministry of Justice
MMPS	Ministry of Labor and Social Protection
ODA	Organization for Development of Entrepreneurship
ONT	National Tourism Office
Plan	Plan for the AIM participation in the decision-making process for the year 2024
PPP	Public Private Partnership
SFI	Tax Incentives for Investment
SRL	Limited Liability Company
TIC	Information and Communication Technology
TVA	Value Added Tax

CONTEXT AND APPROACH

Introduction

AIM is a non-governmental, non-profit, non-political, public benefit organization operating in accordance with the applicable legislation of the Republic of Moldova. AIM is a membership-based employers' association and was established in March 2016. The mission of the association is to contribute to the creation of a favorable business environment for the development of small and medium-sized enterprises operating in the Republic of Moldova. One of the main activities of AIM is to represent its members on platforms of dialogue between the business community and public authorities. The aim is to improve public policies in the field of business environment, especially for micro and small enterprises, and the related regulatory framework. AIM currently has more than 150 members, foreign and locally invested companies, whose interests are represented in various forums and working groups at the national level, including in the area of participation and decision-making by central public administration bodies.

2022 - 2023 Achievements

In 2022 - 2023, AIM has made significant progress in implementing its Legislative Agenda¹, which is based on the problems facing the sector and the solutions to address them, as well as the initiatives coming from its members. The fundamental objective of all 20 initiatives was primarily focused on the development of a sustainable and stable economic environment in the country. Thus, in the Monitoring and Evaluation Report on Participation in the Decision-Making Process of AIM for 2022-2023, we found that of the total number of AIM actions/initiatives, 15% have a status of achieved, 20% have a status of partially achieved, 40% are in process, 5% of initiatives are at the stage of starting the process and 20% have a status of not achieved². Thus, out of the total number of fully implemented actions, 33% have a great impact on the activity of SMEs, 50% have a medium positive impact and only 17% have a small positive impact.

In 2022 - 2023, AIM has focused its efforts on five planned pillars, but also on a number of activities that have emerged along the way. Priority has been given to Pillar 1 - Adaptive Governance; Pillar 2 - Human Capital in Business; Pillar 3 - Access to Finance; Pillar 4 - Access to Markets; Pillar 5 - Supporting Innovation and the Business Environment; and other legislative initiatives.

It is worth noting the success of the AIM following the completion of the previous year's monitoring, among which a number of specific indicators for each pillar of its Legislative Agenda are highlighted as follows: Pillar 1 was achieved at a level of 53%; Pillar 2 - 80%; Pillar 3 - 93%; Pillar 4 - 80%; Pillar 5 - 31%. It should be noted that measures that were not originally on the legislative agenda but came to AIM's attention during the monitoring year were included in the "other" category. Their achievement was 56%.

Proposed Goals and Objectives for the Year 2024

For the year 2024, the AIM proposes an expanded list of actions contained in the AIM's Plan for Participation in Decision-Making Process for the Year 2024 ("Legislative Agenda" or "2024 Legislative Agenda"). The AIM's approach under the 2024 Legislative Agenda proposal is significantly different from the agendas previously implemented.

During the last 2 years of reforms implemented by the relevant authorities, the AIM has contributed and made significant progress in almost all of its priority areas of work. At the same time, the AIM emphasizes that major structural problems in the national economy remain on

¹ <https://sme.md/aim-a-expediat-o-scrisoare-guvernului/>

² <https://sme.md/raportul-de-monitorizare-si-evaluare-a-participarii-la-procesul-de-luare-a-deciziilor/>

the agenda, as well as areas for improvement in the efforts at all levels to reform the economic sector. Among the existing problems are the legacy of the failure of previous governments to adopt reforms that kept pace with the evolution of the global economy, and that the existing problems are the result of the failure of any previous government to present a comprehensive economic sector reform plan.

In previous periods of its activity, AIM's priority has been to promote solutions to member companies' problems and to advocate for more meaningful systemic solutions that modernize B2B and B2G interactions.

This paper is a reflection of AIM's realization that the approach taken so far has not been sufficient. We need to start from first principles and identify the major structural problems in the economy in order to advocate for small and medium enterprises with a fresh breath and greater effectiveness. Then we will come up with proposals that focus on solving the problems that are centered on small and medium-sized enterprises to address these problems.

A broader vision of ours is to frame the debate on economic reform through the organizational structure created by AIM, so that other stakeholders can contribute their ideas on the most pressing issues affecting Moldova's economic future. AIM believes that in order for reform to be successful, we all need to start having the same conversation and be on the same page.

AIM has proposed 5 priority and core areas that reflect the main challenges facing the Moldovan economy:

Priority 1: Human Capital

Priority 2: Access to Finance and Investment Capital

Priority 3: Trade Balance

Priority 4: GDP Growth

Priority 5: Sustainable Reform

Approach

This document represents a broad vision of AIM and the micro, small and medium sized enterprises it represents. The document is not exhaustive and represents a broad AIM roadmap for the proposed timeframe, although it enumerates and works with a comprehensive list of business issues and priorities, the resolution of which would be of significant benefit to the sector as a whole. At the same time, AIM would like to emphasize that the short and prioritized list of actions to be taken from this document will be subject to the approval of the AIM Board of Directors. This list of actions will also be the subject of an evaluation at the end of the monitoring period.

THE 2024 LEGISLATIVE AGENDA TREE



PRIORITY 1: HUMAN CAPITAL

Main objective: Education and retention of the workforce

Section 1.1. Reform and investment in higher education and trade schools

Section 1.2. Attracting and integrating immigrants

Section 1.3. Competitive salaries

One of the most pressing and alarming challenges facing the business environment in the Republic of Moldova ("Moldova") in recent years has been the issue of human capital. The shortage of skilled and unskilled workers and professionals in various fields and professions has significantly hampered the development and expansion of businesses. As a result, it has aggravated the other economic effects of the current crisis. Moldova has been facing a migration crisis for a long time, and projections of the current crisis suggest that in the next two years we may reach a tipping point where there will no longer be enough labor to keep the country's economy growing.

Migration has been caused by a series of policy and investment failures in human capital over a long period of time, which has led people to leave the country in search of better opportunities in terms of work, education and quality of life. In the short term, the relevant authorities should consider developing and implementing migration policies to strengthen Moldova's labor force. In the medium and long term, critical investments are needed to support migration policies that will help reverse this trend.

SECTION 1.1 REFORMING AND INVESTING IN HIGHER EDUCATION AND TRADE SCHOOLS

Since gaining independence, Moldova has not fully succeeded in adapting and innovating higher education to meet the challenges of a rapidly changing and dynamic world. Soviet concepts and curricula still overshadow the subjects and pedagogical approaches used to prepare students for a modern economy in too many universities and vocational schools. Curricula in high-tech fields have not been adapted to the needs of a modern digital economy. Even in trade schools, chefs graduate from 4-year programs with little or no ability to function in a real restaurant kitchen. There are known cases where some schools tolerate corrupt practices of falsifying documents related to internships in the private sector.

In conclusion, the current system does not have the capacity to produce workers who can be employed by employers, Moldovan businesses, without significant retraining. In discussions with the private sector on how to better prepare their graduates for future employment, the management of some universities has often proved unresponsive.

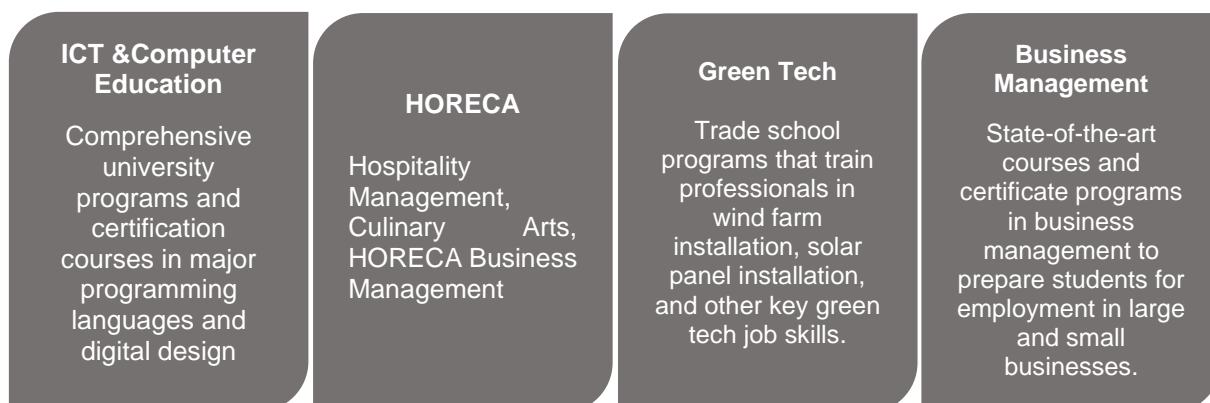
Internationally, it is well known that a country or region cannot have a strong and attractive technological, business or entrepreneurial center without world-class educational institutions. Serious reforms are needed to train and retain a workforce that is capable of growing and ultimately leading the economy of Moldova in the future.

Proposed solutions

1.1.1. Public-Private Partnerships (PPPs) to Stimulate Investment in Private Higher Education Institutions

Attracting local and international investment to build private universities, vocational schools, and certification programs in key sectors of the national economy is the fastest way to

strengthen Moldova's public higher education sector through reform implementation. The government should set up a transparent public-private partnership program that would make use of unused state land and buildings and lease them out at subsidized rates to investors who wish to build private educational institutions. Allowing these schools to develop their own curricula based on the needs of the private sector and their students would be beneficial. The government should prioritize the development of training and certification in the following areas when evaluating potential PPPs:



1.1.2. International Partnerships with European and American Universities

University partnerships with established universities in the EU and the US should be actively pursued by the Ministry of Education and Research. The focus of these partnerships should be on curriculum exchange, faculty exchange, student exchange opportunities, and international certification for Moldovan students.

At least one international partnership that supports the development of the public higher education system in a key sector should be established at each major university in Moldova. The Ministry's initial focus should be on the identification of partners for the following key academic faculties:



Moldova is unique as a country in how underdeveloped its economic education system is, especially in the area of research. There is no functioning economic research capacity that is used to inform public policy or to engage with the private sector and civil society. The striking lack of economic research and data-driven analysis in the academic sector means that other actors, including think tanks and political parties, have had to "internalize" this capacity, without having established research institutions with which to partner. This has led to the politicization of economic research and left the country without public institutions capable of educating the next generation of business and political leaders.

1.1.3. Offer non-university teaching positions to experienced professionals.

The Ministry of Education and Research should empower universities and trade schools to create new personnel policies to attract experienced professionals from the private sector as

teachers. Part-time teaching opportunities should be created so that experienced business leaders, ICT professionals, experienced managers and other experts can develop and teach courses, certificate programs and seminars. Students should be provided with educational opportunities that expose them to the realities of working in the field. These new teachers should also be encouraged to create mentoring programs to better prepare students to work immediately after graduating.

1.1.4. Involving the private sector in developing curricula

New mechanisms for consultation with the private sector on curriculum development and adaptation to a changing economic environment should be developed by the Ministry of Education and Research and university management. The inclusion of new teachers as described in 1.1.3. above would create a new set of approaches in the university curriculum planning process. In addition, in order to ensure that students learn concepts and tools relevant to the current economic environment, leading companies should be consulted on all aspects of the relevant university curriculum.

This deepening of the relationship between the public and private sectors should be based on ongoing collaboration, not just a periodic or one-off review process. Involving private sector stakeholders in this way will not only enhance the employability of graduates but will also increase the private sector's interest in the success of universities and their graduates.

1.1.5. Attracting international students: new policies and approaches

Attracting international students to Moldovan universities should be a priority for the Ministry of Education and Research and university management. Moldova has been successful over the past decade in developing programs in dentistry. These programs have attracted students from all over the world, including the United States. New programs that appeal to international students should be prioritized and heavily marketed.

The international partnerships discussed in section 1.1.2. can be a vector for the creation of feeder programs to bring students on short-term exchange programs. Attracting full-time students should be the highest priority. By attracting international students on a contractual basis, Moldovan universities can supplement their budgets while building a more diverse and internationally aware student body.

1.1.6. Establish annual or bi-annual job fairs at all major educational institutions.

In developed countries, universities know that their main goal is to prepare their students to work and live after graduating. Universities in Moldova often do not have programs in place to effectively assist their students in the search for well-paying jobs after graduation.

Job fairs should be organized at least once a year by the Ministry of Education and Research in cooperation with universities and trade schools³. Interested companies from the private sector should be invited to set up booths. Company representatives can talk about their companies and try to attract graduates from educational institutions. Public institutions, such as government agencies, ministries, etc., should also set up job boards to attract people into public service. Students should be trained in resume writing and interviewing skills to give them the best chance of success.

1.1.7. Organization of Career Days in the country's high schools.

The Ministry of Education and Research should organize "Career Day" events in the country's high schools for students in the 10th, 11th, and 12th grades. These events should include talks by local businesspeople, successful graduates, and video presentations by national business leaders talking about their career choices and future opportunities for graduates. Career days should focus on helping students think about their future job opportunities and align their education with their personal goals.

³ https://en.wikipedia.org/wiki/Job_fair

1.1.8. Co-op Work Programs for Undergraduates.

Students should be encouraged to work part-time in fields related to their studies through university programs that recognize such experience as equivalent to coursework that counts toward their degree. University departments can select the companies and positions that would count as course work, or they can allow students to find relevant programs on their own, subject to approval. Students would be encouraged to gain real-world experience while earning income and academic credit.

1.1.9. Combination of work and study contracts.

Employers should be able to offer their employees compensation and tuition for continuing education, master's degrees, or other continuing education opportunities that will provide employees with greater opportunities and employers with more skilled workers. These arrangements should allow the company to require several years of work after completion of the course or, if the employee leaves the company, require the employee to repay the company's investment.

1.1.10. Private sector partnerships for capstone projects.

Relevant undergraduate fields (e.g. business, economics, ICT, engineering, etc.) should implement private partnership programs whereby students work with companies, NGOs or public institutions to complete/implement a capstone project. These projects should be mutually beneficial to the partner institution and designed to continue student learning and bring real-world experience into the final year of the program.

SECTION 1.2. ATTRACTING AND INTEGRATING MIGRANTS

It is essential that the Government of Moldova implement policies that will reduce and reverse net migration in the long term and provide for a sensible migration policy in the short term. Over the past year, the government has taken steps to simplify the process of obtaining work visas for EU and US citizens. Over time, other countries should be added to this simplified list in order to meet labor market needs and attract foreign investors.

Simultaneously, Moldova currently has no programs or policies to integrate foreign workers or immigrants. We advocate the following policies to attract foreign workers and ensure their integration into the local community:

Proposed solutions

1.2.1. Stakeholder-led Migration Working Group.

The Government should establish a permanent working group involving the private sector to discuss labor needs and advise on a sensible new immigration policy. Businesses are highly motivated to offer good wages and support packages to incoming migrant workers, as evidenced by the recent increase in recruitment agencies for skilled and unskilled workers. It is essential to establish an open dialogue between public authorities and the private sector on employers' needs and possible solutions to the labor crisis.

1.2.2. Migrant language integration programs.

A requirement to pass a Romanian language test should be included in work-related long-term visas. In order to ensure that the visa holder is able to live and work as a member of the community, this test should ensure basic competence and functionality. The test should not focus on higher literary or linguistic requirements.

For those who cannot pass the test while applying for a long-stay visa, Moldova should adopt a program similar to the German immigration system, which requires visa holders to enroll in a certified language class and attend regular classes until they pass the test. There should only be a requirement that they know or learn the official language of the state, with no time limit on how long they attend classes. The courses should be paid for either by the migrant or by their employer. This should be done if the courses are affordable. The recent policy of

creating a national second language program for Moldovan citizens could form the basis for such a program for foreigners.

1.2.3. Programs aimed at retaining foreign students.

Special emphasis should be placed on presenting job opportunities to foreign students attending educational institutions in Moldova at job fairs and similar programs described in section 1.1.6. Long-term visas, which also grant the right to work in Moldova to graduates of Moldovan universities and vocational schools, should be simplified, and local companies should be able to employ students without any further difficulties, both during the period of study and after graduation.

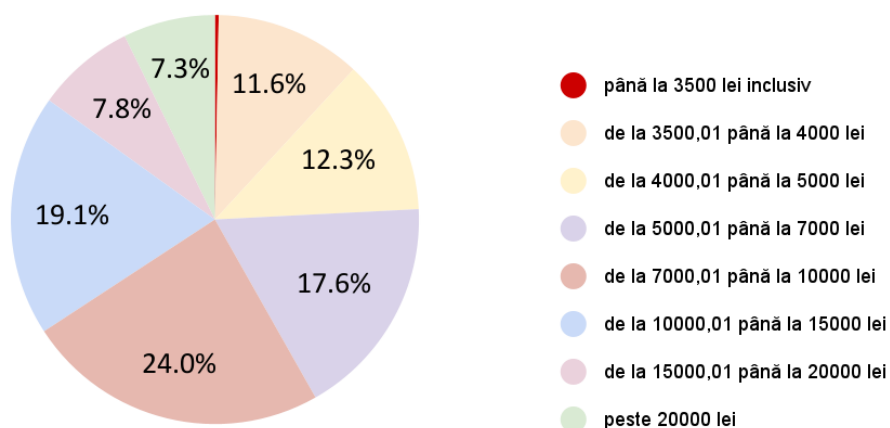
SECTION 1.3. COMPETITIVE SALARIES

Young people considering leaving Moldova most often cite low wages as the main reason for their decision when asked about their plans to emigrate. Rising inflation since 2022 has exacerbated the situation by increasing the cost of living in Moldova, leading more people to seek temporary or permanent work opportunities abroad. Last year, the average wage rose from about 10,000 lei/month to 12,000 lei/month (20% increase), representing a real loss of purchasing power of about 14% with 34% inflation.

Low wages cause and encourage emigration and tax evasion. The market is distorted, and honest companies become uncompetitive by the problem of "envelope wages" or wages paid without paying the applicable taxes of about 50%⁴. As a result, workers pay all or part of their salaries out of their bank accounts, which reduces their ability to take out loans, borrow from financial institutions, or benefit from public services such as health care or social security.

At the moment, Moldova has a flat rate of income tax of about 40 percent. At least that's what people are told. The reality is that Moldova is not stable, but extremely regressive in taxing income. Poor people pay much higher percentage taxes than wealthy people. The following table of the income distribution is taken from the study of the National Bureau of Statistics of September 2022⁵, when the average salary in Moldova was 10353.3 lei. (Figure 1)

Figure 1



⁴ Estimated figure that is reached when both parties, the employee and the employer, pay taxes on the amount received by the employee after taxation (43% - 55%), and which affects the phenomenon described.

⁵ https://statistica.gov.md/ro/repartizarea-salariatilor-conform-marimii-salariului-calculat-pentru-luna-septembrie-9436_60159.html

The graph shows that only 7.3% of Moldovan employees earn more than 20,000 lei/month. Based on the salary distribution in this graph and the national average salary, we can estimate that the average salary in the "top income category" is around 35,000 lei (1,949.32 USD).

This figure immediately raises questions, as it clearly does not correspond to the reality in Moldova. Even with 2 incomes at this top average, no family could afford a new luxury car, a new apartment in Chisinau, or a \$500,000 house in the suburbs. These statistics clearly imply that the country's wealthiest, or even upper middle class, are not paid the salaries that influence these income calculations. Moreover, some of those paid official salaries in this top bracket are workers in the ICT industry, whose companies pay a one-time 7% tax on income (wages + rent + operating expenses) instead of the "one-time" 40%⁶ income tax. Over the past year, the government has floated several policy ideas that would expand the IT Park Law and further shift the tax burden to the lowest earners.

We conclude that Moldova does not have a "single" tax, but rather a series of legal but opaque revenue channels that result in a highly regressive tax rate. This incentivizes tax evasion by companies and those who pay salaries in envelopes to avoid the huge tax burden on the country's lower-paid workers.

Substantial economic growth is the only long-term solution to wage growth. In the short term, however, policymakers can take steps to increase pay equity and eliminate the envelope wage by rethinking the current tax system. To this end, we propose the following policy measures:

Proposed Solutions

1.3.1. Adopt a system of differentiated taxation.

The government should introduce a system of differentiated taxation based on the amount of income, which increases the tax burden with income rather than decreasing it. Just as the IT Park Law brought IT companies that had been operating illegally outside the state tax system into the legal tax system. A significant reduction in tax payments for the lowest paid workers would remove the main incentive for envelope wages. This would lead to higher wages for workers and higher profits for companies, which would have more resources to hire more people to expand their businesses and operations. Tax thresholds for a differential tax system should be carefully consulted with economists and experts to achieve 2 primary goals. First, to incentivize tax compliance by low-wage workers. Second, to encourage those with high incomes or who currently use "other" sources of income to bring their wages into the economy in a formal way. No solution other than a differentiated tax system can achieve both objectives simultaneously.

1.3.2. Taxing the Self-Employed.

The government should introduce new rules for self-employed persons working as microenterprises in the service sector, including painters, plumbers, construction workers, consultants, etc. We have discussed this initiative further in section 4.1 of this paper.

PRIORITY 2: ACCESS TO FINANCE AND INVESTMENT CAPITAL

Main objective: Recognition of the formula: "Moldova needs to create the conditions for private savings to lead to new opportunities for investment capital."

Section 2.1. Access to Finance and Investment Capital

⁶ <https://assets.kpmg.com/content/dam/kpmg/md/pdf/Tax-Card-Moldova-RO-2023.pdf>

Micro, small and medium-sized enterprises in Moldova cite access to capital as a major challenge to starting, growing, and expanding their businesses. This is often perceived as an issue of banks not wanting to lend money to themselves at virtually no risk. For example, it is common for banks to require 100% or more collateral before approving a loan.

The current government has attempted to support business lending through the creation of the 373 program⁷. It has also created other loan guarantee programs through the ODA. AIM supports the creation and implementation of such programs. However, we recognize that this does not address the core of the problem in Moldova's financial system. People have few options to invest their savings and few incentives to keep their financial savings within the national financial system. The de facto effectiveness of programs such as 373 is proportional to their level of capitalization. The government's current plans are to capitalize loan guarantee schemes either from the state budget or with the support of international partners. This is a short-term solution and not one that will allow for sustainable growth in the long run.

Policies are needed to create incentives for people to save money in order to generate savings among the population that are kept in banks and then lent to individuals and businesses at reasonable rates.

Currently, Moldova has almost no venture capital structures or business angel investment levers in addition to bank and non-bank credit markets. This means that self-financing or funding from family and friends is the only way to finance start-ups, which are too risky for most bank loans in any country. In order to make such investment structures viable, legislative changes that reduce the risk for potential investors need to be considered.

AIM has identified the following key problems in SME financing:

- (a) **Lack of affordable credit** - This is critically driven by the lack of investors in the Moldovan market willing to take on riskier long-term investments. Foreign investors who have access to foreign capital markets have a massive advantage over local companies, which have to rely exclusively on the Moldovan capital markets.
- (b) **No venture capital/market for business angel investors** - Venture capital is a form of private equity and a type of financing that investors provide to start-up companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from wealthy investors, investment banks and other financial institutions. A business angel is a private individual, often with business experience, who invests a portion of his or her wealth directly in new and growing private companies. Business angels can invest individually or as part of a syndicate, in which one angel usually takes the lead role.
- (c) **Too many unbanked people and too much unbanked savings in the economy as a whole** - According to the 2021 data, 64.25% of people aged 14 and over in Moldova⁸ had a bank account. By comparison, 69.12% in Romania⁹, 99.38% in Estonia, 99.98%¹⁰ in Germany and 83.56% in Ukraine. People without bank accounts in Moldova often save money in other ways, such as buying building materials or gradually investing in their real estate. Many unbanked and underbanked people avoid banking because they engage in activities that are not allowed under current legislation - for example, self-employment, seasonal or irregular work. The problem creates a surplus of unproductive savings (e.g. piles of building materials for a house that will take several years to build). These savings cannot be borrowed and used to stimulate growth throughout the economy. Without integrating the entire population into the banking and savings system, Moldova will always struggle to find domestic investment capital.

⁷ <https://373.gov.md/>

⁸ https://www.theglobaleconomy.com/Moldova/percent_people_bank_accounts/

⁹ https://www.theglobaleconomy.com/Romania/percent_people_bank_accounts/

¹⁰ https://www.theglobaleconomy.com/Estonia/percent_people_bank_accounts/

- (d) **Non-existent capital market** - The Moldovan stock exchange has been largely dysfunctional since 2009¹¹. In the absence of a functioning and efficient capital market, companies wishing to raise capital through the public capital markets are forced to look for alternative options and, in some cases, to foreign capital markets.

The issue of reforming or rebuilding Moldova's capital markets goes beyond the scope of this Plan and the AIM's focus on SMEs. At the same time, there is a critical gap in Moldova's business finance sector, and this should be a matter of concern. AIM does not propose a solution to this problem but calls on the authorities to recognize that the domestic capital market is not functioning. With this recognition, it will be possible to have a broader multi-stakeholder dialogue on the way forward. Whether it is market reform, easier access to external markets, or other alternative mechanisms such as a local bond market (not a capital market), there are solutions and it is time to recognize the problem and start addressing it.

Proposed solutions

2.1.1. Private Long-Term Savings and Investment Program.

The government should create a private long-term savings program for workers, similar to the 401k retirement program in the US¹². This program would allow workers to save 10% of their income (pre-tax) and be matched by their employers at the 50% level (also pre-tax). Contributions to the investment account would be taxed only if withdrawn before the account matures. The funds would be managed by qualified banks selected and certified by the government agency overseeing the program.

Participation in the program in Moldova is proposed to be voluntary for companies and employees, but mandatory for companies receiving tax subsidies, such as those in the IT Park. Employees of the IT park whose income is more than three times the equivalent of the country's minimum wage would have to participate in the maximum amount of savings. Funds under this program may be used in whole or in part for business development loans on favorable terms, similar to the 373 Program¹³. As with the 373 Program, to reflect market changes and strategic national needs, state agencies should identify priority lending areas and update them as needed. Initially, it would be beneficial for the program to prioritize loans for:

- (a) Domestic electricity generation or investment in conservation/business energy generation.
- (b) Local and Regional Tourism.
- (c) Small and medium-sized enterprises and products designed to promote the growth and resilience of small and medium-sized enterprises.
- (d) New businesses created by experienced diaspora returnees to Moldova.
- (e) Accredited private educational institutions that will benefit from the public-private partnership programs described in Section 1.1.1.
- (d) High-value agriculture (which has a higher market value compared to conventional crops) focused on export.

2.1.2. Incentives and reforms related to attracting people into the bank-managed financial system.

It is essential to significantly reduce the number of people in Moldova who use money outside the banking system, to pool the savings of the people within financial institutions, to loan them back and to make them productive and economically efficient. We support and propose the following initiatives and policies to incentivize individuals to join the banking system and businesses to bring their employees into the banking system:

¹¹ <https://moldovamatters.substack.com/p/explainer-the-moldovan-stock-market>

¹² [https://en.wikipedia.org/wiki/401\(k\)](https://en.wikipedia.org/wiki/401(k))

¹³ <https://373.gov.md/>

- (a) Create and implement a graduated tax system based on an individual's income as described in Section 1.4.1. This will reduce incentives for envelope wages and bring more workers fully into the financial system.
- (b) Creation of the private long-term savings and investment program described in Section 2.1.1. This program will be to the advantage of companies with legal employment contracts and to the disadvantage of companies with envelope wages.
- (c) Creation of a digital self-employment system on the basis of a person's IDNO number as described in section 4.1.1. This system would allow persons employed in economic activities and industries that are currently not covered by applicable national labor laws to be easily placed in the legal labor market through the country's banking system.
- (d) National credit rating system based on bank transaction history. To enable banks and other financial lenders to more easily assess applicants for loans and financial products, the government should promote the establishment of a national credit scoring system. Countries with score-based systems encourage individuals to become involved in the banking and financial sector at an early age. This allows credit scores to be built up that can be used for future home mortgages or other investments. To build a system of bank interest rates that can compete with those in Estonia, for example, it is essential that parents have an incentive to bring their children into the banking system.

2.1.3. Implementing the "Limited Liability" Concept within the "Limited Liability" Structure of the SRL.

To stimulate the creation of venture capital and angel funds in Moldova, it is necessary to update the country's SRL structure legislation to meet foreign investors' expectations and allow local entrepreneurs to take business risks.

The adoption of the SRL Reform in July 2023 has completely overhauled the outdated structure of Moldovan SRLs, allowing to create a new flexible structure in managing shareholders as well as equity investments. Taken on its own, this reform represents a massive leap forward in the ability of entrepreneurs to structure Moldovan companies without having to offshore them. But we can see that it is not enough by itself. Without real legal protection designed to limit investor liability, savvy investors will always seek an additional layer of protection through an offshore entity in the US, EU or elsewhere to limit liability. Without ensuring real limited liability in so-called "limited liability companies" in Moldova, investment funds and individual investors wishing to invest extensively in the Moldovan economy will not do so through Moldovan corporate structures.

In addition to its importance in attracting investors and creating the conditions for an equity investment market, the liability cap has been part of the engine of tremendous economic growth in the United States since this structure was first put in place in the 1970s. An entrepreneur won't take risks or even move his investment money to a safer place if he fears losing his home, his car, or incurring massive debt if his business fails. Moldova is already an extremely "risky" market to invest in. Artificially increasing the risk by not complying with international rules on limited liability companies will only make business and the building of a better economy more difficult.

PRIORITY 3: BALANCE OF TRADE

Primary Objective: Sustained growth in key domestic industries

Section 3.1. Maintain Moldova's export potential.

Section 3.2. Supporting local producers and stimulating investment in the energy sector.

Over the past decade, Moldova has consistently run a trade deficit with its neighbors¹⁴ and has been dependent on imports in critical sectors of the economy, particularly energy. Running a trade deficit is not necessarily a problem in itself and is largely to be expected in a country without abundant resources or a developed industrial base. At the same time, it clearly poses a strategic threat to the economy as a whole, as Moldova's lack of secure energy supplies and domestic energy production capacity has led to multiple economic crises. Moreover, as Moldova looks forward to joining the European Union, local producers and industries will face both benefits and challenges as they integrate into the world's largest free trade bloc. With this in mind, AIM advocates government policies to stimulate economic sectors with underdeveloped export potential, while seeking to develop strategies to reduce the country's dependence on imported energy. We also seek to highlight the opportunities and risks we see in the development of Moldova's international trade relations over the next 5 years, and suggest forward-looking policies to prepare for a changing economic landscape.

SECTION 3.1. SUPPORTING MOLDOVA'S EXPORT POTENTIAL

In several key economic areas related to the export of goods, Moldova's economy is underperforming. These include the traditional pillars of the economy, such as agriculture and agribusiness. They also include newer sectors such as ICT and tourism. AIM believes that through forward-looking policies and investments, the infrastructure and regulatory environment can support significant growth in these key sectors. This will add value and strengthen the national economy.

AIM advocates for a focus on the following target sectors and policy areas:

Proposed solutions

3.1.1. Information and Communication Technologies (ICT).

Since the adoption of the IT Park Law, Moldova has experienced a boom in ICT companies. At the same time, companies are struggling to find and retain talent due to insufficient educational programs to train students or retrain professionals moving into ICT from other fields.

To support and develop this growing industry, AIM strongly advocates implementing comprehensive educational reforms, as described in Section 1.1. of this document, which would result in creating more education and certification pipelines to train new ICT workers. In implementing educational reforms, it is essential to engage the private sector, as existing ICT companies can be a critical ally in creating, teaching, and supporting educational and certification programs.

3.1.2. Promotion of tourism.

Moldova has an anemic tourism sector. It currently accounts for an insignificant share of national exports and GDP. In 2019 (these are the latest pre-pandemic figures), the country recorded around 179,000 tourists¹⁵ arrivals. For context, there is a town in the US state of

¹⁴ <https://tradingeconomics.com/moldova/balance-of-trade#:~:text=Balance%20of%20Trade%20in%20Moldova,Million%20in%20December%20of%202022.>

¹⁵ <https://www.worlddata.info/europe/moldova/tourism.php>

Georgia called Helen. It has a population of 545 and one stoplight. It receives 3 million tourists a year¹⁶. This is not because of ancient ruins or UNESCO-worthy natural beauty. In the mid-1970s, Helen was a dying city with a high unemployment rate and a problem with drug abuse. A city councilman proposed a plan to turn the town into a "German Alpine Village." The idea was to attract tourists to the town's extensive hiking, camping, and other outdoor activities. Today, Helen hosts the largest Oktoberfest on the East Coast, and even the McDonald's Oktoberfest has a windmill. Similarly, Moldova needs a sophisticated national tourism strategy. It needs to "choose" to be a tourist destination. The sector is likely to become a major contributor to the national economy, given the country's natural beauty, wine and food culture, and growing number of rural tourist attractions. AIM advocates the following policies and initiatives to achieve the deserved progress of this sector in line with its potential:

- (a) **Establish a National Tourism Promotion Office** - The government should establish and increase funding for a national office responsible for regionally promoting Moldova as a tourist destination. This national office should be responsible for the promotion of the national brand, the purchase of advertising in target countries to encourage people to consider traveling to Moldova, and the coordination with the private sector to promote and support tourism clusters and itineraries. The office should play a role in developing the culture and infrastructure necessary for tourism in Moldova, in addition to promoting Moldovan tourism. This national office would have several roles in this area. These could include, but are not limited to the following.
 - (i) **Educating Mayors and Local Authorities** - Working with local authorities to educate them about the benefits of local tourism and the infrastructural needs that tourists will bring. The private sector and civil society have built and promoted many strong tourist towns (e.g. Old Orhei). In order to create an ecosystem that supports foreign tourists, local governments should understand their role in marking routes, providing maps and local information, and working with the private sector.
 - (ii) **Village of the Year Award** - The National Office should pursue low-cost, high-impact mechanisms to encourage local tourism development, such as creating a "Village of the Year" award for Moldova's most scenic and touristic village or town.
 - (iii) **National tourist trails** - Tourists coming to Moldova are looking for off-the-beaten-path adventures and authentic local traditions. By developing national hiking, backpacking and biking trails based on the Camino de Santiago¹⁷ model¹⁸, a national tourism office could create the infrastructure to connect these tourists with local communities.
- (b) **Tourism investment funding** - Local investment in tourism, particularly within clusters and along designated routes and other areas of opportunity, should be explicitly eligible for grant funding programs, such as the 373 Program¹⁹. If the 373 Program is funded as described in Section 2.1. or if other subsidized credit programs are considered, tourism should be analyzed as a sector of national strategic importance.

SECTION 3.2. SUPPORTING LOCAL PRODUCERS AND STIMULATING ENERGY INVESTMENT

Moldova does not have a strong industrial base. It relies on its trading partners to import many critical items. At the same time, with the right changes in the regulatory framework and the right incentive programs, local companies are capable of producing much of Moldova's needs and requirements. It is in this context that AIM advocates for the following policies and initiatives that focus on the support of local producers:

Proposed solutions

¹⁶ <https://www.fox5atlanta.com/news/north-georgia-tourist-town-with-a-german-flair-is-practically-shut-down-in-the-midst-of-the-pandemic>

¹⁷ https://en.wikipedia.org/wiki/Camino_de_Santiago

¹⁸ <https://caminoways.com/camino-de-santiago>

¹⁹ <https://373.gov.md/>

3.2.1. Encouraging the private sector to invest in green energy.

The long-term neglect of Moldova's energy security and domestic energy production is one of the country's greatest strategic threats, as events of the past two years have clearly demonstrated. Since full-scale war broke out in Ukraine, the Moldovan government has moved quickly to isolate itself from Russian energy blackmail and create additional energy links with the EU. In support of this goal, international partners are providing Moldova with substantial financial assistance to implement large-scale energy infrastructure projects. Moldova's unique opportunity to build a green energy economy was highlighted in an article by Suriya Evans-Pritchard Jayanti in Time magazine²⁰. The article notes Moldova's nearly 100% dependence on imported energy but contends that this is a potential strength because "Moldova has the counterintuitive luxury of starting almost from scratch. It is estimated that the country needs \$1 billion a year in energy investment to build a viable national energy system.

International donors and taxpayers will play a major role, but with the right incentives, the private sector can support this necessary investment while building competitive green businesses and creating well-paying green jobs domestically. To accomplish this, AIM recommends that the Government take the following steps to enable individual and private sector economic initiatives:

- (a) **Enhance and fund loan guarantee schemes**, including the 373-scheme described in paragraph 2.1 above. As described in this section, target government-backed subsidized (preferential) loans to specific green energy investments.
- (b) **Establish Investment Tax Incentives (ITI) for green energy projects**. Tax incentives will increase investment by individuals and businesses to contribute to an energy transition. AIM supports the following initiatives in this regard:
 - (i) **ITI for individual homeowners** - The government should create and implement a tax incentive for individual household energy efficiency or energy generation investments equal to 30% of investment costs, payable as an end-of-year income tax refund. This credit would apply to heat pump installation, home insulation, solar water heating, and home energy generation such as rooftop solar.
 - (ii) **ITI for Non-Energy Generating Companies** - The government should create and implement a tax incentive for the installation of heat pumps, insulation, solar water heating, rooftop solar, and micro-wind turbines by non-energy generating companies. This credit should be equal to 30% of the investment cost of the project to be financed, which should be in relation to VAT payments.
 - (iii) **ITI for power generation companies** - Government should provide tax incentives and preferential loans to companies setting up solar, wind and biomass plants.
 - (iv) **PPP incentives for energy production** - According to Article 5.4 of the Law on Electricity²¹, the state can provide land free of charge to companies that are involved in the production of green electricity. Currently, there is little incentive for relevant state and local government agencies to provide land, including small plots, to wind and solar power producers. The government should provide incentives to local governments and other relevant government agencies by publishing statistics on which regions have been most successful in attracting green investment, and by publicly encouraging such projects.
- (c) **Strengthen the legal framework for housing cooperatives**, with a focus on green energy. Housing cooperatives should be explicitly eligible for the loan guarantee programs described in Section 2.1. so that they can borrow for green energy installations, such as rooftop solar, that benefit all tenants in urban apartment buildings.
- (d) **Leading by example** - While the State will create favorable conditions for promoting and implementing incentive policies and programs that drive Moldova's transition to green energy, it is important that national and local government entities lead by example. At both the central and local levels, solar panels should be installed on the roofs of public institutions throughout the country. This exemplary demonstration of the green energy

²⁰ <https://time.com/6310923/moldova-green-promise-europe/>
²¹ https://www.legis.md/cautare/getResults?doc_id=135004&lang=ro

transition trend will contribute to the development of local green energy businesses and make the public aware of the ambitious goals set by the country's president to make the Republic of Moldova carbon neutral by 2035²².

3.2.2. Industrial Hemp Production.

The Ministry of Agriculture and Food Industry should accelerate existing plans to create a simplified licensing mechanism for growing and producing industrial hemp in Moldova. Moldova is currently a net importer of "hemp flour, hemp nonwovens, hemp seeds and hemp oil". Hemp is a very climate-sensitive and high-value crop that can be grown in all regions of Moldova. Critically, industrial hemp can be processed into hemp wool, an effective and (potentially) domestically produced building insulation material.

3.2.3. Competitive Shelf Prices for Local Producers.

AIM is committed to the creation of the right conditions and the right environment for competitive shelf prices for local producers. There is a proposal for a situation analysis and a study on how to ensure access to local products on shop shelves and to consumers. The idea is to incentivize Moldovan producers and ensure they have a market with competitive products at reasonable prices compared to the same imported products. Following the detailed study of the issue, AIM will advocate for adjustments to the current regulatory framework that will strengthen the enabling environment for competitive shelf prices for local producers, including from the perspective of falling within the limits of the Association Agreement with the EU.

PRIORITY 4: GDP GROWTH

Primary objective: Make Moldova the easiest place in Europe to do business.

Section 4.1. Eliminating legislative "gaps".

Section 4.2. Eliminate inefficiencies and focus on saving time in the economy.

Section 4.3. Regulatory Reform for Small Producers.

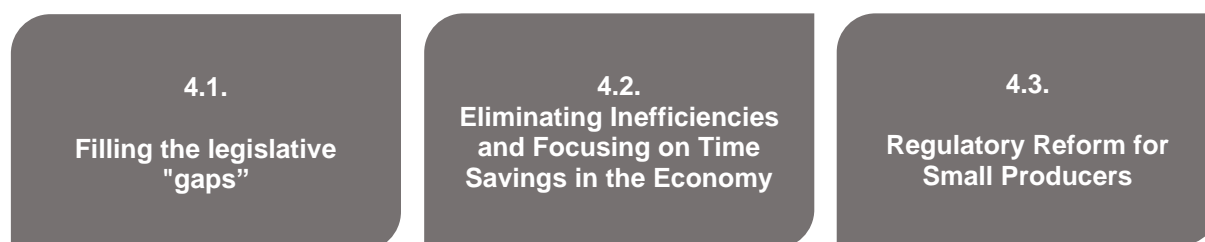
Economic growth is a necessary factor in solving all the other political and social problems facing the country and must be the government's top priority. Economic growth will allow Moldova to reduce and turn around emigration, increase pensions, fight the roots of political populism, and fight corruption through better investment in public sector wages and facilities. None of these goals can be achieved without massive and sustained economic growth. To increase the country's GDP, several factors are important in the short, medium, and long term. The fundamental goal of GDP growth is the focus of each initiative and policy recommendation in this Legislative Agenda. At the same time, it is essential to identify the core of the country's economic issues and to promote policies that address the core issue-Moldova is not a good place to do business.

The government must set a simple goal to achieve rapid and sustainable economic growth:

"Moldova must be the easiest place in Europe to do business"
AiM

²² <https://time.com/6310923/moldova-green-promise-europe/>

To achieve this goal, AIM believes in bold domestic market reform to radically simplify the process of doing business in Moldova and eliminate the root causes of corruption, informality and inefficiency in the existing market. To this end, AIM has identified 3 key areas of reform:



If these three areas of intervention are achieved in conjunction with the other elements of this Legislative Agenda, the reforms that aim to fundamentally simplify the process of doing business in Moldova will lead to substantial and sustainable economic growth.

SECTION 4.1. FILLING OF LEGISLATIVE GAPS

AIM defines a regulatory "loophole" as any ordinary business function that a Moldovan company must undertake or perform, but is not currently permitted by the applicable legal framework. Loopholes occur when legislation or regulations are designed with flaws or are outdated, forcing companies to find illegal or semi-legal solutions in order to perform or accomplish a simple task. Legal loopholes create the "informality" effect. Since the inspectors responsible for carrying out government controls are aware of these legal loopholes, they can potentially exploit them, turning "informality" into corruption by extorting and inducing to offer bribes. To enable companies to do the right thing without breaking the law or offering bribes to public officials, it is essential to close these loopholes and establish a clear regulatory framework.

AIM has identified the following key "gaps" and proposes the following policies to address these:

Proposed solutions

4.1.1. The right to self-employment.

Moldova does not have a functioning system of self-employment for cases where individuals work in the service sector but are not full-time employees of a company. This means that many workers, who are important for the economy and are often hired by companies for short-term work, do not fall strictly under the provisions of the Tax Code, i.e. they do not pay taxes, are not considered legal employees by companies and their financial sources are often outside the financial system managed by the country's banking system. This issue affects a broad range of occupations, such as plumbers, handymen, painters, all types of repair workers, consultants (online marketing, social media, and so on). What these professions have in common is that they are often 1 person or a small team (2-3 construction workers). They are too small to form an LLC. The lack of legislation in this area does not only affect the workers, who are unable to legalize their income, but also the companies, which need to create "grey" or "black" cash to pay for the services they need. Companies cannot afford not to hire a plumber when pipes start leaking or small but urgent jobs need to be done. The need to employ people who are not covered by current legislation means that 'informal' relationships are accepted, which in turn is a breeding ground for tax evasion and corruption.

AIM has studied regional and global best practices on self-employment and proposes a structure similar to that in many other countries. People working in certain sectors should be treated as micro-enterprises for themselves. Our solution requires a fully transparent and digital system, facilitated by the FISC and operated by banks. Using the beneficiary's IDNO code and bank details, individuals and companies can pay a self-employed person. This payment process would record the type of work and the time of payment. Taxes would be

automatically withheld by the financial institution. AIM proposes a special graduated tax rate starting at 2% and increasing by 2% annually until it reaches the tax rate for commercial companies.

This gradual increase in the tax rate will bring people into the new system. Eventually, it will bring the self-employed into line with the general level of business taxation, recognizing them as micro-businesses. By bringing in new customers who are not currently "banked", banks will be incentivized to participate. Currently, this category of self-employed is not taxed at all. Therefore, every cent of tax is a cent that the FISC does not collect and remains in the gray economy. For more details, see AIM's proposed bill on self-employment²³.

4.1.2. Status of workers in the agricultural sector and seasonal workers.

There is no formal and functional status for seasonal agricultural workers in Moldova, similar to the problems of self-employment in the service sector. These workers are currently paid in cash, do not pay taxes, do not receive social benefits, cannot access banking services, and are not protected as employees. It is imperative that this gap be addressed through legislation, given the importance of the agricultural sector to Moldova's economy.

In many countries, not only in Moldova, but tax evasion in the agricultural sector is also a problem. Any solution to this problem should meet 2 criteria: 1) it has to be simple, and 2) it has to provide a competitive advantage to those businesses that abide by the law. To achieve this, AIM proposes to create a single tax rate of 7% on the wages of seasonal agricultural workers. Workers earning less than 3 times the minimum wage would be eligible for full benefits, including health care and pensions. Workers earning more than 3 times the minimum wage would be subject to 100% participation in the private savings plan outlined in section 2.1. By implementing such a simple tax system, the FISC will make transparent an entire sector that is currently entirely in the "gray" economy. By showing the benefits to workers, companies that participate in this program will have a competitive advantage over those that do not. This will lead to widespread adoption throughout the industry. Over time, once a differentiated tax system (as described in section 1.4.1.) is in place, this special tax regime can be folded into a common tax system, similar to the ITI²⁴.

4.1.3. Online Payments and E-Bon fiscal (Tax Voucher).

At the present time, the e-commerce sector in the Republic of Moldova is anemic and almost non-existent. Banks and some third-party payment processors have started to allow people to pay for goods or services online in the last 3 years. At the same time, these services are not easy to use and are not fully integrated with the main providers of online payment services in Moldova. For example, paying for Yandex Go is done in Amsterdam, paying for Bolt in Estonia, paying for Glovo in Spain, etc. Given the lack of local payment processors and, critically, the loopholes in the electronic payment voucher legislation, businesses have had to find solutions. The requirement for paper vouchers excludes online marketplaces with a common distribution infrastructure, such as Amazon, and recurring payments for digital services, such as subscription-based services. In a separate paper, AIM and other e-commerce stakeholders analyzed these issues in a concept paper entitled Unlocking Moldova's e-commerce potential²⁵.

The government needs to create a digital collection system - the e-Bon fiscal – to create the financial infrastructure for a modern e-commerce sector. AIM has developed in a document – Functional Specification for E-Bon Fiscal Reform – a concept including a functional specification for this system based on the new STS MERV system²⁶.

²³ <https://drive.google.com/drive/u/0/folders/1yFa1-L681IVx1Bde1-oabqDLGndhu7Ak>

²⁴ https://docs.google.com/document/d/1F35M_9tx41AOiB23RX8RLOQBJEhgVbnXgFtRXkV/NfS0/edit

²⁵ https://docs.google.com/document/d/1WL6B10p6ea0hstzd7dqBtUoAdAvo_JboUrR6s3eYh04/edit#heading=h.y4i54I87m8js

²⁶ <https://docs.google.com/document/d/12tOTg-yv59I9ikiV6OzhvJk6CI0etr8KM7j-qA-fdY4/edit>

4.1.4. Tax Invoice in case of Cash and Card Payments.

Even into the 21st century, Moldova still requires a special invoice signed and stamped by company executives on every B2B cash or company card transaction. Accountants from the selling company and the buying company have to get together and create, sign and stamp a tax invoice every time a company needs to quickly go to the store and buy a set of light bulbs. These documents are not invoices. While an invoice is a debt contract in which a company receives goods and agrees to pay for them at a later date, tax invoices combine the qualities of both an invoice and a delivery receipt. They are required even when companies pay with cash or a bank card at the time of purchase. The most important thing is that these documents do not serve any purpose for the FISC. The VAT system was explicitly designed to allow the movement of goods and services in an economy and the taxation of value-added without the need for a two-way chain of verification for all commercial transactions. This system is not necessary. It's time consuming and administratively costly, which is essentially harmful to the economy. The burden of complying with the rules leads companies to skip the small procurement process and fail to comply with the applicable regulatory framework. We describe this problem and proposals for solutions in an AIM case study - Structural incentives and compliance²⁷.

In order to adopt international best practices and simplify B2B transactions and compliance, AIM proposes a general overhaul of the tax invoice system. A separate document, to which this Legislative Agenda refers, contains the full set of AIM proposals²⁸. The key aspects of this reform are as follows:

- (a) **Acceptance of the tax document as a "primary document"** - applicable to B2B trade and payments and for VAT and credit compliance checks. We support the government's proposals to create a limited acceptance scheme that would only apply to bank card purchases and would be subject to a monthly limit. AIM sees this concept as a good start, but the ultimate goal is full acceptance of the Tax Voucher for cash and bank card purchases in B2B transactions (subject to existing cash purchase limits).
- (b) **Elimination of the tax invoice for B2B transactions involving debt.** An invoicing system modeled on the EU e-invoicing standards should be used for purchases or transactions involving delivery and subsequent payment. This system is easy to use. It can be read automatically by default and is decentralized. It should replace the existing e-invoicing system, which has none of the above advantages. As part of its EU accession efforts, Moldova needs to implement these initiatives in a way that is practicable in Europe. This would be beneficial for the business environment and for moving towards compliance with EU standards.
- (c) **Use of e-Bon fiscal and MERV to Enable FISC Understanding and Tracking**
While the elimination of invoices in their current form has immediate and clear benefits for businesses, it is clear that tax authorities will want to retain the deeper insight into transactions and trade that the current intrusive tracking system provides. Fortunately, with the creation of the MERV and the formulation of the AIM e-Tax proposals, there is a beneficial solution that can work for all stakeholders. Using the QR code on tax receipts, the FISC should create a system that allows business accountants to digitally record their purchases for VAT refunds. This will prevent double-use of tax receipts or other potential fraud, while maintaining a simple system without wasted paper, unnecessary signatures and stamps.

4.1.5. The Right to Innovation.

Currently, the Moldovan legislative and regulatory framework for the innovation sector is rooted in Soviet legislation and regulations, which do not clearly and fully explain all aspects of a progressive innovation process. Combined with the failure to create an environment of sustained economic reform since independence, this does not ensure the expected progress

²⁷ https://docs.google.com/document/d/1yDDaxXalyioG5zyyTy5t6xGG6wmu_eqPZQ2v_EYeoI0/edit
²⁸ https://drive.google.com/drive/u/0/folders/1_NuuhhEEf_izgjqpHfBuN2o-Fz2Pm9Z

by lagging behind neighboring countries in setting the rules for the innovative industries of the 21st century. We see this problem in the lack of online card transactions, the failure to create an e-commerce system and others. Companies that want to create an innovative product, whether digital or a new food or beverage product that is not covered by existing regulations, face confusion, bans or lack of information on how to operate legally. As a result, the Moldovan economy is rife with inefficiencies, offshoring, bureaucratic solutions and businesses that do not comply at all.

To address this issue, AIM proposes the creation of a new public institution, or the development of competencies within an existing public institution, to act as a "one-stop-shop" to assist and support domestic companies in developing and bringing to market innovative or simply complex products. This could be a stand-alone institution or integrated into the proposed Business Ombudsman Office described in Section 5.1.1. It is proposed that such an institution would have the following competencies and areas of intervention:

- (a) **Research and analysis of current processes** - Entrepreneurs who are unsure about the legalization and marketing of their products and services can approach the agency for assistance. The agency will then do a review of the processes and help the entrepreneur navigate the regulatory and licensing system.
- (b) **Direct assistance to the business** - If there is a problem with a public authority, the competent authority will intervene directly to try to help the public institution to understand what the economic operator is doing and to find a way to legalize the work or production process.
- (c) **Identification of systemic problems and making recommendations to the Parliament and the Government** - When systemic problems occur and are identified, the competent authority may make recommendations for changes in the law or regulations directly to the Parliament and the Government. The objective is to have effective communication for the resolution of unresolved business issues.
- (d) **Advocacy for business and new products** - The competent authority may formulate a legislative proposal and send it to the Parliament for consideration and vote or a regulatory act to the Government to enable and regulate these processes, if there is a product that is completely unavailable in Moldova, e.g. new FinTech products or new engineering technologies that are not covered by the existing legal framework. The entrepreneur would only have to show that the process or technology is widely used in a neighboring country in the region for the agency to support a particular new product. If the process or technology is viable elsewhere, the Agency should not be the judge of whether it would be viable in Moldova but should be a supporter of its introduction to the market.

4.1.6. Additional Gaps.

What we have presented in this document is a non-exhaustive list of existing "gaps" in the current regulatory framework, including the issues and gaps in the above chapters and sections. It is impossible for an association such as AIM to draw up a comprehensive list of the problems that exist in the various industries and sectors of the economy. However, AIM sees the need for an ongoing reform process in this area. The gaps need to be identified and closed. In this context, as a fundamental pillar of the implementation of comprehensive economic reform, AIM urges the government to prioritize the elimination of "gaps". This should be done in a planned and deliberate manner by the relevant authorities. The necessary assessments should be carried out by the executive and the working bodies of the legislature. A comprehensive review should include the non-performing sectors of the economy as well as the regulatory framework. The executive should also assess the need to create institutions to support this reform in the long term, such as the business ombudsman office presented in section 5.1.1.

SECTION 4.2. THE ELIMINATION OF INEFFICIENCIES AND A FOCUS ON TIME SAVINGS IN THE ECONOMY

In a situation of regional and global economic instability and challenges, the easiest way for Moldova to achieve substantial GDP growth is through investment in improvements in the efficiency of the domestic market. Moldova's biggest inefficiencies are legacies of the Soviet Union. Unnecessary red tape wastes a significant amount of time. For large companies, these inefficiencies often take the form of "jobs" that exist only to make it easier to comply with laws or circulate documents. For small businesses, whose time is their most valuable asset, these tasks often fall to the owners or senior managers of the company.

The criticality of this issue is illustrated by the following estimate of lost time and its impact on GDP. It is estimated that the time lost by businesses due to regulatory compliance accounts for a certain percentage of Moldova's annual GDP. At the same time, the burden of regulatory compliance is estimated to be significant, including up to 1.5% of GDP in EU countries²⁹, up to 3.6% of GDP in Denmark³⁰, up to 12% of GDP in the U.S.³¹, according to a number of studies and research papers conducted in various jurisdictions around the world.

Taking into account the above arguments, AIM is of the opinion that Moldova should not try to catch up with the situation in certain countries, but to become a leader in terms of ease of doing business and elimination of red tape.

AIM has identified the following key challenges and potential solutions:

4.2.1. Replacement of the e-Invoice and e-Receipt system according to the EU model.

These issues have been presented and described earlier in this document in sections 4.1.3. and 4.1.4.

4.2.2. Removal of stamps.

Moldova has a system inherited from the Soviets whereby all critical (and completely unimportant) documents must be signed and stamped as proof of legal legitimacy. The parliament made the stamp optional several years ago. In practice, however, the stamp is still required for all B2B and B2G interactions. Essentially, it is easier to get stamped than to try to convince another party that stamping is no longer legally required.

Removing the stamp altogether is AIM's proposed solution.

4.2.3. Elimination of legacy paper-based systems.

Brick and mortar businesses are required to maintain various legacy paper-based systems, and face fines and severe penalties if these systems are not maintained in duplicate with existing electronic systems. One example is the "Cash Register," which details daily sales and requires maintaining cash register Z-reports. Another example is the "Complaint Register". This is a paper book in which customers can write complaints about a company and in which managers must write responses.

The "Cash and Control Register" should be eliminated for all fiscal printers that use MERV. The "complaint log" should be eliminated in recognition that it has been supplanted by private sector solutions such as Google Reviews, Facebook Reviews, Tripadvisor and others.

4.2.4. Prevention of new bureaucratic "innovations" that slow down the economy.

²⁹ https://regulatorystudies.columbian.gwu.edu/sites/g/files/zaxdzs4751/files/2022-10/regulatory_compliance_burdens_litreview_synthesis_finalweb.pdf

³⁰ https://regulatorystudies.columbian.gwu.edu/sites/g/files/zaxdzs4751/files/2022-10/regulatory_compliance_burdens_litreview_synthesis_finalweb.pdf

³¹ <https://nam.org/regulatory-onslaught-costing-small-manufacturers-more-than-50000-per-employee-29236/?stream=series-press-releases>

AIM's experience suggests that the nature of Moldovan bureaucracy stems from the unwillingness of authorities to change existing bureaucratic processes. The nature of this problem is rooted in the fact that ministries and regulatory agencies simply do not want to maintain burdensome bureaucratic processes. Instead, they often complicate the situation by adding new ones to the existing ones, making them even more burdensome.

In this regard, the AIM suggests, as described in Section 5.1.2 of the Legislative Agenda, that the relevant authorities consider and adopt new parameters for monitoring the implementation of regulatory and legislative acts.

SECTION 4.3. REFORMING THE REGULATORY FRAMEWORK FOR SMALL PRODUCERS

A simple upward trajectory that allows micro-enterprises to become small enterprises and eventually large enterprises is a prerequisite for a strong economy. The status of small producers is currently one of the major gaps in the regulatory framework. There is no room for small and micro producers to be certified, legally licensed, and then grow and develop because the legal framework was designed to regulate large state-owned Soviet enterprises.

Solutions proposed by AIM:

4.3.1 Law on Small Producers.

AIM supports local small producers in developing their entrepreneurial activities. AIM actively advocates the creation of a comprehensive set of regulations, taking into account European practices. These regulations should be focused on the needs and activities of small producers. It is proposed to develop a series of amendments to the existing legislation in order to optimize and simplify the technical and sanitary requirements to facilitate the activity of food operators producing small quantities of animal/non-animal food products, producers of artisanal products, producers of traditional products and food services in tourist/agro-tourist accommodation.

During the year, in order to create a favorable regulatory environment for small producers in the Republic of Moldova, AIM will continue to actively participate in the development of the secondary regulatory framework as described below.

In order to facilitate the activity of food operators, so that small food producers can carry out their activity in more flexible codes, including the implementation of food safety management systems, including good hygiene practices and procedures based on HACCP principles, AIM proposed to complete the draft HG discussed during the meeting of the Working Group established by MAIA Decree No. 118 of September 25, 2023.

Given that the following scope of the project covers producers of small quantities of food products of animal and/or non-animal origin, including the area of production that can be regarded as artisanal or traditional; direct deliveries by the producer of small quantities of primary products to final consumers or to retail establishments that market them directly to the final consumer; tourism, agrotourism and rural inns, the facilitation of the implementation of the food safety management system and the implementation of good hygiene practices will create a favorable environment for the operation of small producers, including alignment with food safety requirements.

At present, the public food sector³² is regulated by the classic authorization procedure for all food operators; in this sense, and in order to facilitate the activity of small producers, the

³² HG nr.1209/2007 - https://www.legis.md/cautare/getResults?doc_id=137074&lang=ru#

simplified procedure provided for in the proposed amendments³³ will replace the veterinary health authorization, which is now issued through a much more complicated procedure, so it is proposed to complete HG no. 1209/2007. Concerning the activity of tourist pensions, there is currently no specific law or special regulations for the activity of tourist and agritourism pensions. At present, tourist and agrotourism pensions belong to the category of catering establishments and must comply with the relevant regulations in this field. Since the current regulations³⁴ regulate the types and classification of tourist and agritourism accommodations, we propose to supplement them with provisions directly related to the requirements for the preparation and serving of meals, as well as the registration procedure for food safety.

In accordance with the current rules and requirements, all food blocks of the educational institution are subject to sanitary veterinary approval, it is necessary to determine which pre-school institutions are of small capacity, for which exceptions will be made in terms of approval. AIM's proposal is for the amendment of the provision on veterinary authorization by the introduction of a new registration procedure for food safety. It is also proposed to make exceptions for the possibility of providing food to children by contracting catering services.

4.3.2. Law on Beer, Cider and Fruit wine Production.

The production of fermented beverages such as beer and cider is currently regulated by the same laws regulating distilled products such as vodka and other spirits. In partial recognition of the need to regulate fermented and distilled products separately, the production of fermented alcohol is regulated by "carve-outs" in this law. AIM calls for a separate law regulating beer and cider production, modeled on Moldova's highly successful wine law. Such a law would facilitate the opening up of small production and streamline competition in a market that is currently regulated in a way that only recognizes extremely large companies. The principle of such a law can be found in AIM's concept paper here.

PRIORITY 5: SUSTAINABLE REFORM

Primary objective:: Adaptable and effective governance for the 21st century - top-down approach

Section 5.1. Sustainable Reform

In Moldova, the process of reviewing and adopting laws and regulations is slow and often opaque because of structural problems. Mutual suspicion and a degree of mistrust still characterize relations between the public and private sectors. In order to create positive feedback between the public and private sectors and to help the government identify problem areas and solutions, new mechanisms are needed. There is a need for additional mechanisms so that the government carefully analyzes all areas of public policy under consideration in terms of their economic impact (positive and negative).

5.1.1. The Business Ombudsman.

"Access to information" and "corruption" are regularly cited as two of the main challenges faced by small and medium-sized enterprises in Moldova. New companies, or companies entering a new sector, often have to deal with an opaque, unnecessary and sometimes hostile bureaucracy, which makes it very difficult for them to know how to operate legally in their sector. Sometimes these problems are the result of ineffective regulation, and sometimes they

³³ pachetul de Lege de modificare a unor acte legislative inclusiv conform derogărilor prevăzute și în Legea nr.50/2013 pentru acordarea certificatului de înregistrare în domeniul siguranței alimentelor - https://www.legis.md/cautare/getResults?doc_id=133187&lang=ro#

³⁴ HG nr.643/2003 - https://www.legis.md/cautare/getResults?doc_id=124342&lang=ro#

are seen as an opportunity for bribery in the form of kickbacks or extortion. These problems exist throughout the economy, but are particularly acute in rural areas, where bureaucrats feel they can act with impunity and receive little attention from the institutions that could combat the illegal phenomenon. When faced with such problems, companies often ask, "Where can I turn for help? At present, the answer is no one.

AIM's proposal is for the creation of a business ombudsman in Moldova. This idea of creating a "bureaucracy in order to fix the bureaucracy" may seem counter-intuitive, but it is not a new one. One example is New York City's Office of Small Business Services³⁵. This office is a one-stop shop for small businesses and potential entrepreneurs who need assistance and support in their interactions with government agencies. AIM believes that the establishment of such a business ombudsman office in Moldova will be the fastest and most effective way to achieve the systemic reform needed throughout the economic system. AIM's proposed vision for the functional competencies of the Business Ombudsman could include:

- (a) **Business Advocate First** - This office must first be a friend to small business. More than any other office, it will be a bridge of trust between disgruntled people and their government. This will be the result of the office's leadership, which will be guided by a mission of business environment support.
- (b) **Getting answers** - When it comes to getting permits, certifications and approvals, many officials refuse to answer when asked to clarify day-to-day issues. The "information" offices of public institutions are often understaffed, and when it is possible to get an answer, it is often inconsistent with the policies of other public institutions. For this reason, access to information is a strong promoter of bribery. In the interest of micro, small and medium enterprises, this office must be empowered to obtain real and truthful answers from all relevant institutions.
- (c) **Accountability of public officials** - Accountability in public institutions is often as simple as the elimination of official discretion and the creation of uniform procedures. The Office of the Business Ombudsman, empowered to hold authorities accountable for their bad decisions and act as a "watchdog of the business environment," will strengthen the ability of entrepreneurs to get answers as well as consistent public policy.
- (d) **Ensuring equal treatment** - By holding officials and agencies accountable, the Business Ombudsman Office will help ensure equal treatment for large and small businesses. This will help to eliminate disproportionate treatment between large, wealthy companies and local start-up companies with modest financial status.
- (e) **Investigation of Complaints/Violations of the Bill of Rights** - This office will be empowered to investigate situations and cases of violations of the rights of small and medium enterprises, their legal rights, and of creditors and borrowers in credit relationships. The ombudsman's office will be responsible for referral of cases to other relevant authorities and recommendations for further reforms.
- (f) **Data collection and input into a long-term reform process** - With a single central small business ombudsman, the government will be able to monitor and take the pulse of the business community. The office will be able to have an internal collection of complaint data and prioritization of areas for reform in the business sector. The office will also be able to be a focal point for business associations and other groups to bring challenges and grievances in the sector to the attention of the government for redress.

5.1.2. Mandatory Indicators for the Monitoring of the Implementation of New Legislation (Ex ante Analysis)

Often, concrete indicators of the estimated economic impact of new legislation are not provided to decision-makers when the executive or legislature is considering new laws or other acts. The analysis is done by the Ministry of Finance and other ministries. However, it is not made public. This means that the concrete short-, medium-, and long-term economic impact of a piece of legislation is often unknown to the public, civil society, and even members of parliament. This situation empowers the Ministry of Finance, which has the ability to "veto" any

³⁵ <https://www.nyc.gov/site/sbs/index.page>

bill that involves spending from the state budget. The Ministry often does not accept compromises or arguments in public consultations. For example, a bill that would increase public spending now or in the short term, but would stimulate economic growth in the long term, is unlikely to be accepted by the Ministry. Because of the lack of transparency in government projections, discussions of proposed reforms are not based on objective economic analysis. This creates a bias toward more conservative policies, dampens the potential for deep economic reform, and exacerbates poor communication about potential reforms.

AIM believes that it is essential for Moldova to have an independent, transparent institution empowered to "score" the new regulatory framework, i.e. proposed new projects, based on a set of sound economic indicators. Establishing such an institution is an international best practice that serves as a bulwark against poor public policy and promotes a more transparent decision-making process. All proposed legislation should be assessed for its impact on the economy and the business environment, just as all proposed legislation must now be assessed for its impact on the national goal of European integration. The applicable values against which the assessment is made vary from country to country, but at least the following 3 criteria should be assessed:

- (a) **Budget and fiscal impact** - What will be the impact of the bill on the budget over a 10-year period?
- (b) **Cost and time of implementation** - What will it cost the private sector to implement the new law or regulation? This should be measured both in terms of the time required to adapt to the new regulations and the money spent by the private sector to comply. This assessment can highlight the time or money saved or spent as required by the law.
- (c) **Macroeconomic competitiveness** - How will the proposed legislation affect Moldova's macroeconomic competitiveness relative to its neighbors?

Different countries around the world implement the process of assessing and evaluating the regulatory framework prior to adoption and implementation in different ways. The responsible authority or working group may be part of the legislative branch, part of the executive branch, or it may be a new independent authority, etc. The form is not critical, the substance is paramount, and it is particularly important that the process be independent, non-partisan, apolitical and transparent. Some examples of similar authorities around the world have been identified by AIM:

- (a) **USA: Congressional Budget Office** - An independent, nonpartisan federal agency within the legislative branch. Here is the description of the Office from its official website³⁶. The Office is nonpartisan, conducts objective, unbiased reviews, and hires its staff solely on the basis of professional competence without regard to political affiliation. The Office does not make policy recommendations, and each report and cost estimate summarizes the methodology underlying the analysis.
- (b) **United Kingdom: Office for Budget Responsibility**³⁷ - An independent "non-departmental public body" within the administration.
- (c) **Belgium: Federal Planning Bureau**³⁸ - An independent public body that assesses legislation on the basis of economic, social and environmental impacts.
- (d) **EU: European Budget Board**³⁹ - An independent body responsible for the budget of the EU.

BUSINESS CONTINUITY FROM 2023

The following recommendations have been identified for the next period of AIM's activity, following the monitoring and evaluation of legislative initiatives and/or proposals to change public policies or action plans of public authorities whose activities have an influence and impact on the business environment in general and on micro and small enterprises in particular, developed or proposed by AIM in 2022-2023.

³⁶ <https://www.cbo.gov/about/overview>

³⁷ https://en.wikipedia.org/wiki/Office_for_Budget_Responsibility

³⁸ https://en.wikipedia.org/wiki/Federal_Planning_Bureau

³⁹ https://en.wikipedia.org/wiki/European_Fiscal_Board

Implementing these highlighted actions would ensure that gaps and barriers identified and described in AIM's Monitoring and Evaluation Report on Involvement in Policy Making are tackled. To ensure continuity, Table 1 follows the structure and terminology used in that report:

Table 1

N/O	Action No	Recommendation
PILLAR 1		
1	Action 1.1.	It is recommended to involve the AIM more actively through the channel of the Economic Council with the Prime Minister in the process of drafting amendments to the relevant legal acts, but also in ensuring the necessary legislative support for the implementation of the actions set out in the Action Plan in terms of state control and elimination of abuses in the mechanism for applying sanctions to economic operators. It is recommended to take into account the deadlines of fall 2023.
2	Action 2.1.	It is recommended to further analyze the previously conducted comparative studies of international legislation in order to select the most appropriate model, which will be exclusively or largely focused on the protection of the interests of small and medium-sized businesses. It is recommended that a new draft law be prepared and promoted by the Economic Council under the Prime Minister.
3	Action 3.1.	AIM is recommended to be in permanent contact with the Ministry of Economic Development and Digitization in the coming period to discuss and examine the possibility of including a mechanism for reporting corruption in the business sector through the mobile application recently announced by the Ministry ⁴⁰ .
PILLAR 2		
4	Action 1.2.	It is recommended that AIM develop and deliver a viable concept for this action by the end of Q4 2023 or Q1 2024. The concept developed should focus exclusively on micro and small enterprises. This can provide the necessary support.
5	Action 2.2.	It is recommended that in the coming period AIM should monitor the process of elaboration and approval of the secondary legal framework for implementation of the legal provisions provided for by Law No. 112 of 11.05.2023 on amendments to some normative acts. If necessary, to make proposals and adjustments.
PILLAR 3		
6	Action 1.3.	The AIM is recommended to monitor the implementation process of the new legislation in the coming period, once it has been published and entered into force. Based on the results of the monitoring, the IAW is recommended to make proposals and comments in order to improve the regulations if certain omissions or situations requiring action are detected.
7	Action 2.3.	Considering that the consumer protection in the field of credit has recently been transferred to the CNPF with the approval of Law 175/2023 ⁴¹ , the AIM is recommended to cooperate and actively participate in the public consultation process of the

⁴⁰ https://www.ipn.md/ro/evo-se-va-numi-aplicatia-care-va-contine-actele-7967_1096150.html

⁴¹ https://www.legis.md/cautare/getResults?doc_id=137796&lang=ro

		<p>secondary legal framework that will strengthen the provisions of the primary framework and make the legal provisions practical and applicable.</p> <p>AIM is also recommended to analyze the existence of possible gaps or new risks for SMEs in the area of credit and to make proposals for adjustments to the legal framework.</p>
PILLAR 4		
8	Action 1.4.	The AIM is recommended to make proposals for the development of the approach contained in this action in the interest of micro, small and medium-sized enterprises. It is recommended that AIM actively participate in all rounds of public consultations and working groups for the implementation of this action.
9	Action 2.4.	It is recommended that, during the interim period, AIM maintain permanent contact with the Ministry of Economic Development and Digitization in order to discuss and identify the most effective solutions proposed to address the outlined problem, taking into account the interests of micro and small enterprises.
10	Action 3.4.	It is recommended that AIM monitor the regulatory impact of the new amendments to Law 135/2007 and come back in the next period with comments and, if necessary, with proposals for adjustments, in the sense of including its proposals that were not taken into account in the previous round, but also new proposals to eliminate the gaps that will be identified.
PILLAR 5		
11	Action 1.5.	In the next monitoring period, it is recommended that AIM formulate a clearer concept for the current action and discuss it with its members and partner organizations with a view to building a broader coalition before starting discussions with the Ministry.
12	Action 2.5.	In the next monitoring period, it is recommended that AIM formulate a clearer concept for the current action and discuss it with the Ministry of Economic Development and Digitization and the Ministry of Energy of the Republic of Moldova.
13	Action 3.5.	In the next monitoring period, the AIM is recommended to formulate a clearer concept in parallel with the previous action (Pillar 5 Initiative 2) and to discuss it with the relevant authorities.
14	Action 4.5.	AIM is recommended to formulate a clearer concept, supported by a broad coalition of the business community, in relation to the current action and raise it with the Ministry of Finance.
15	Action 5.5.	AIM is recommended to monitor the implementation process of the new legislation. Based on the results of the monitoring, it is recommended that AIM submit its proposals and comments (amendments) to improve the regulations if certain omissions or situations requiring intervention are identified.
OTHERS		
16	Action 1. others	AIM is recommended to continue to actively participate in the development of the secondary legal framework with a view to creating a favorable legal framework for small producers in the Republic of Moldova and to monitor the examination path of the primary legal framework introduced in Parliament for debate. If necessary, to formulate written requests to the relevant commission.
17	Action 2. others	It is recommended that AIM propose the inclusion of this initiative in the National Program for Promoting Entrepreneurship and

		Increasing Competitiveness in 2023-2027 ⁴² (PACC Program 2027) and monitor the execution of this important point. It is recommended that AIM come up with its own vision of regulating the activity of freelancers and coordinate with the competent authorities of the Executive the proposed initiative.
18	Action 3. others	In the next monitoring period, AIM is recommended to be in permanent contact with the subjects involved in the elaboration process as well as with the decision makers who will later be determined to approve the Methodology, all to efficiently achieve the action.
19	Action 4. others	It is recommended that AIM submit a new set of adjustments to labor legislation aimed at facilitating the work of SMEs.
20	Action 5. others	It is recommended that AIM bring this topic on the agenda and ensure that it remains active. The status and timeliness of the proposal will be clarified. If the action is not in a policy document or PA, AIM to keep the topic on the public agenda.

⁴² https://particip.gov.md/ro/document/stages/*10263



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Alliance of Small and Medium-sized Enterprises from Moldova

Mun. Chisinau, Republic of
Moldova
202 Stefan cel Mare si Sfânt Blvd.,
5th floor, MD-2001

Phone: (373) 60 420 400

liliana.busuioc@sme.md
www.sme.md